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Comments Regarding Bill #5699

AN ACT PROVIDING RELIEF TO ELECTRICITY CUSTOMERS

Before the Energy and Technology Committee

March 1, 2011

Prepared by Shirley Bergert¹

Recommended Action: Support

This proposal is the only way the legislature can provide immediate rate relief to consumers.

Bill #5699 proposes a time-limited² period in which an assessment on the windfall profits of electric generators would be made to support rate relief. Generators will still be allowed to earn incredibly high returns: 20% return on equity plus half of what they earn on top of that. Estimates in 2007 were that such an assessment would generate \$400+ million/year.

Electricity, a necessity for all classes of customers, has become increasingly unaffordable for many and a drain on economic development. Low income households are particularly at risk. There is a significant affordability gap regarding energy costs for low income households. The average annual shortfall between actual and affordable home energy bills is nearly \$2,100 per household for households at or below 185% of the federal poverty level, considerably below the eligibility cap for energy assistance. This gap is well-documented in a recent report: HOME ENERGY AFFORDABILITY GAP: 2010, p.1, Roger D. Colton, Fisher, Sheehan & Colton, January 2011 (available at www.operationfuel.org).

When electric deregulation passed in 1998 – nearly 13 years ago – it was in anticipation of development of competition among electric generators which was expected to hold rates down. We now know that deregulated states across the country have higher rates than their regulated neighbors, and Connecticut has the highest electricity rates in the continental US.

The lack of competition led to windfall profits, particularly among the baseload generators that would be subject to this assessment. This power is relatively inexpensive to produce, but because of the New England regional bid system, these generators are paid at the same rate as the highest generation bid purchased in the system. Credible estimates put the windfall profits at over a 50%

¹ Shirley Bergert serves: as the residential representative on the Energy Conservation Management Board overseeing the expenditure of ratepayer conservation funds in the Connecticut Energy Efficiency Fund (Conn. Gen. Stat. § 16-245m); as the low income representative on the Fuel Oil Conservation Board (Conn. Gen. Stat. § 16a-22f); on the Low Income Energy Advisory Board (Conn. Gen. Stat. § 16a-41b); and on the Advisory Board of the Institute for Sustainable Energy at Eastern Connecticut State University.

² For the income years commencing January 1, 2009, January 1, 2010, and January 1, 2011.

return on equity for some generators, a stunning level of profit during the worst depression since the 1930s.

Generators could minimize their windfall profits assessment by reducing profits to more appropriate levels, for example by selling its electric output to CL&P or UI at prices substantially below the prevailing inflated market price. This would bring electricity costs to consumers closer to the cost of production like we had under regulation. But even where a generator had to pay an assessment, it would still have been permitted to earn at least a 20% return on equity, a high rate of return generally that is about double what utilities are allowed to earn, and exceptional particularly in these economic times.

For these reasons, we urge your support of this proposal, the only way to provide immediate rate relief to electric consumers.